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**ANNUAL REVIEW OF TELECOMMUNICATIONS TRADE AGREEMENTS
HIGHLIGHTS US/EC PROGRESS ON THIRD GENERATION MOBILE SERVICES –
MARKET ACCESS CONCERNS IN MEXICO, JAPAN AND GERMANY**

United States Trade Representative Charlene Barshefsky announced today the completion of the annual review of foreign countries' compliance with telecommunications trade agreements under section 1377 of the Omnibus Trade and Competitiveness Act of 1988. This year's review, which was completed on March 30, 1999, focused on WTO members' compliance with the WTO Basic Telecommunications Agreement, particularly the European Community and Member States, Mexico, Japan and Germany. The review indicated that the WTO agreement has increased market access for U.S. telecommunications companies in foreign markets, but that ongoing enforcement of the agreement is needed to ensure continued growth in world-wide competition for telecommunications services.

"U.S. exports of telecommunications services and equipment have increased significantly following the entry into force of the WTO telecom agreement in February 1998, as well as the Information Technology Agreement," said Ambassador Barshefsky. "U.S. firms are building new networks and offering competitive services in Africa, the Americas, Asia and Europe. In turn, U.S. consumers are benefitting from rates as low as 10 to 20 cents per minute for international telephone calls on a growing list of routes. Finally, greater overseas competition in services has helped to keep telecommunications equipment exports strong. For example, exports were up by 16 percent to Western Europe in 1998, countering the effects of recession in other regions that led to a 5 percent global decline."

"Our Section 1377 review this year highlights important progress between the U.S. and the European telecommunications industries in developing standards for third generation mobile telecommunications systems," stated United States Trade Representative Barshefsky. "We now need to ensure that EU Member States actually license and assign radio spectrum on the basis of standards that emerge from the ongoing negotiations at the International Telecommunication Union."

The review showed that Mexico has recently made strides toward more satisfactory implementation of its WTO telecom agreement commitments, including the removal of a discriminatory surcharge on inbound international calls. Concerns remain, however, that ongoing regulatory processes are non-transparent and potentially ineffective. “I have doubts about Mexico’s implementation of its commitments under the WTO agreement with respect to international services and interconnection rates,” Ambassador Barshefsky said. “The Mexican government has stated its intention to review its international service and interconnection/universal service regulations in 1999, and we expect that it will respond favorably to the requests from all the new entrants to permit ISR immediately. USTR will conduct an out-of-cycle examination by July 30 regarding the progress of Mexico’s ongoing regulatory process, and will take appropriate action including, if warranted, the initiation of WTO dispute settlement proceedings, to assure that new competitors in the market are treated fairly.”

Japan came under close scrutiny in the 1377 review for over-priced interconnection rates that effectively prevent competition in Japan’s local market, as well as a prohibition on the routing of both domestic and international traffic via combinations of owned and leased network facilities. “Despite assurances from Japan that it would seek the maximum possible reductions in interconnection rates, the negligible reductions achieved in 1998 were a major disappointment,” said Ambassador Barshefsky. “We look to Japan to take credible measures to remedy these two problems by June 4, 1999. If Japan fails to do so, we will consider appropriate options, including initiation of WTO dispute resolution proceedings.”

The review also established that Germany’s delay in assuring non-discriminatory and cost-oriented interconnection rates, terms, and conditions raises serious doubts about Germany’s compliance with its WTO telecom agreement commitments. At the same time, Ambassador Barshefsky said, “Regulatory proceedings in Germany during April and May are expected to set important precedents in determining interconnection rates, terms, and conditions for all competitors to Deutsche Telekom. We will monitor the outcome of these proceedings to determine whether Germany has met its WTO obligations, and are prepared to take WTO action thereafter if the outcome of the proceedings is not consistent with those obligations.”

Background

European Community: Decisions by the European Telecommunications Standards Institute (1/98) and the European Council of Ministers (12/98) suggested a strategy to promote Pan-European and global adoption of a standard for third generation mobile telecommunications systems that would disadvantage U.S. competitors in European and third country markets. In a January 1999 letter to the top U.S. foreign policy, trade and telecommunications officials, Commissioner Martin Bangemann reaffirmed the Commission’s support for the outcome of the important multilateral third generation standards negotiations in the International Telecommunication Union (ITU), but his response fell short of addressing several specific U.S. concerns regarding Europe’s timely acceptance of all standards that are ultimately adopted by the ITU.

In mid-February 1999, representatives of U.S. and European telecommunications industries arrived at a recommendation on a multi-mode standard which could resolve U.S. concerns. Subsequently, Finland, the first Member State to award 3G licenses, selected four third generation

service licensees known to favor the European mode of the proposed ITU multi-mode standard. However, Finland did not stipulate use of the European mode as a license condition, and the United States expects that other Member States will similarly avoid stipulating the use of any specific technology at least until the ITU standards-setting process is completed later this year.

Mexico: In November 1998, all six competitors to Telmex, Mexico's dominant former monopoly supplier of local, long distance, and international service, requested regulatory permission to provide ISR on Mexico's international routes. Such a step would dramatically lower the retail price in Mexico, the United States, and elsewhere of approximately 3 billion minutes of calls, mostly among family members. Cofetel, the Mexican regulatory agency, has indicated it is studying this request.

In December 1998, Cofetel terminated Mexico's discriminatory inbound international surcharge and announced a range of steps regarding interconnection and dominant carrier regulations. At least one carrier is still being billed for the surcharge and the interconnection and dominant carrier regulations have yet to produce lower net domestic interconnection costs for new entrants. Nor have the new regulations generated greater confidence that Telmex is not engaging in anti-competitive cross-subsidization of different telecom services. For example, the regulator has yet to identify a universal service program under which Telmex would be required to fund universal service on the same basis as its competitors. The Mexican regulator has announced a detailed work program in an effort to remedy these concerns, which are crucial to the viability of a competitive market in Mexico.

Japan: It appears that Japan has yet to ensure that NTT, a dominant supplier, provide interconnection at cost-oriented rates or that it not engage in anti-competitive cross-subsidization of telecom services. The fact that local interconnection rates meet or exceed retail rates on a broad range of calls (and are priced at up to ten times the rates of competitive markets) is evidence that either the interconnection rates are set above cost or that the retail rate is being cross-subsidized.

Japan also restricts facilities-based carriers from using leased lines, but did not schedule such a limitation in its WTO commitments. There is no prohibition on facilities-based carriers using leased lines in Japan's telecommunications law. In fact, the MPT permits facilities-based carriers to complete their networks through leasing arrangements in exceptional cases. It should be the rule, not the exception, that facilities-based carriers are permitted to augment their networks through leasing arrangements. In contrast to Japan, there is no need for carriers to seek special regulatory permission to assemble a mixed facilities-based and leased network in the United States, Europe, or other competitive telecommunications markets.

These policies have had a disturbing impact on competition in Japan: NTT, the world's largest ex-monopoly carrier, actually gained market share last year in its core telephone services market.

NTT's interconnection regime is the subject of an ongoing review in Japan.

Germany: Starting in the second quarter of 1998 and after concluding a number of satisfactory interconnection agreements with early new entrants to the German telecommunications market, Deutsche Telekom (DT) slowed the pace of interconnection negotiations and sought tougher rates, terms and conditions for subsequent prospective entrants. All new entrants need to

interconnect with the DT network to access the German market, and Germany committed to assure fair interconnection rates, terms and conditions in adopting the WTO Reference Paper.

The German regulator recently has begun to take action that may remedy the situation. A favorable regulatory decision, published on March 10, set forth a definition of operators that qualify for interconnection. The definition is comparable with practices in other competitive markets, resolving one of the most troublesome conditions for which DT had sought regulatory agreement. Other DT-proposed interconnection conditions, regarding facilities requirements and surcharges that DT wishes to impose on new entrants, await regulatory review in the coming months.